

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>MONROE COUNTY LIBRARY SYSTEM</b>	County <b>MONROE</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>1/25/06</b>	Date Accountant Report Submitted to State: <b>4/24/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>COOLEY HEHL WOHLGAMUTH &amp; CARLTON, PLLC</b>			
Street Address <b>ONE SOUTH MONROE STREET</b>		City <b>MONROE</b>	State <b>MI</b>
Accountant Signature <i>Cooley Hehl Wohlgamuth &amp; Carlton</i>		ZIP <b>48161</b>	Date <b>04-04-06</b>

MONROE COUNTY LIBRARY SYSTEM  
MONROE COUNTY, MICHIGAN

ANNUAL FINANCIAL REPORT  
December 31, 2005

**MONROE COUNTY LIBRARY SYSTEM  
MONROE COUNTY, MICHIGAN**

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December 31, 2005*

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### Independent Auditor's Report

Board of Directors  
Monroe County Library System  
Monroe County, Michigan 48161

We have audited the accompanying basic financial statements of the Monroe County Library System, a component unit of the County of Monroe, Michigan, as of and for the year ended December 31, 2005. These basic financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Monroe County Library System, a component unit of the County of Monroe, Michigan, as of December 31, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the other required supplementary information on pages 2 through 5 and 20 through 22, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Cooley Hehl Wohlgamuth & Carlton*

January 25, 2006

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Management's Discussion and Analysis (Unaudited)*  
*Year Ended December 31, 2005*

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Using this Annual Report

This annual report consists of three parts-*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library:

- The *government-wide financial statement* provides both *long-term* and *short-term* information about the Library's *overall* financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.
- The Statement of Revenues, Expenditures and Changes in Fund Balances provides information on the Library's operations under the modified accrual method. These fund financial statements focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The reconciliation of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Management's Discussion and Analysis (Unaudited)*  
*Year Ended December 31, 2005*

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Condensed Financial Information

The table below compares key financial information of the government-wide financial statements in a condensed format between the current year and the prior year:

	<u>2005</u>	<u>2004</u>
Current assets	\$ 9,269,401	\$ 8,520,624
Capital assets	<u>8,649,879</u>	<u>5,548,711</u>
Total assets	<u>17,919,280</u>	<u>14,069,335</u>
Current liabilities	133,548	130,553
Deferred revenue	5,732,344	5,488,132
Other liabilities	<u>258,929</u>	<u>234,191</u>
Total liabilities	<u>6,124,821</u>	<u>5,852,876</u>
Net assets:		
Invested in capital assets, net of debt	8,649,879	5,548,711
Restricted for donor-restricted purpose	9,861	12,935
Unrestricted	<u>3,134,719</u>	<u>2,654,813</u>
Total net assets	<u>\$11,794,459</u>	<u>\$ 8,216,459</u>
Revenue:		
Property taxes	\$5,382,382	\$4,182,748
Other	<u>1,624,970</u>	<u>1,642,723</u>
Total revenue	7,007,352	5,825,471
Expenses - Library services	<u>6,066,307</u>	<u>5,721,491</u>
Change in net assets before special item	941,045	103,980
Special item	<u>2,636,955</u>	<u>-</u>
Change in net assets	<u>\$3,578,000</u>	<u>\$ 103,980</u>

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Management's Discussion and Analysis (Unaudited)*  
*Year Ended December 31, 2005*

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The Library as a Whole

- The Library's net assets before the special item increased by \$941,045 this year compared to \$103,980 in the prior year.
- The Library's primary source of revenue is from property taxes, which represent approximately 77% of total revenue, a slight increase over 2004's income from taxes. Penal fines in 2005 accounted for 13.6% of revenue, down from 18.4% the previous year. The Library's interest income accounted for about 1.8% of total revenue.
- Personnel services continue to be the Library's most significant expense, representing 66% of the Library's total expenses. Staff was granted a 3% increase in 2005.
- Depreciation expense of \$162,294 represents approximately 2.5% of the Library's total expenses. The Library's long-term debt activity is in the form of lease payments equal to the debt service payment for the Ellis building renovation. The renovation was completed in 1999 using \$1,800,000 Limited Tax General Obligation 1998 Building Authority Bonds. The Library paid \$431,375 in lease payments (which included an additional \$200,000 principal payment) to the Monroe County Municipal Building Authority, which is about 7% of 2005 expenses.
- The \$344,816 increase in total expenses between the prior year and the current year is due primarily to the increase in personnel services as noted above, an increase in dial-in access, and building lease.

Library Budgetary Highlights for 2005

- Property tax revenue for 2005 was based on one mill, as voters replaced two expiring (0.5 and 0.33) mill levies with a one mill levy in August 2004. Penal fine revenue, as always, was budgeted conservatively due to the fluctuating nature of penal fines. Contractual services revenue increased by approximately \$4,000 as the City of Monroe increased their allocation for maintaining the city library buildings to more closely reflect actual expenses to the Monroe County Library System. In addition to the City of Monroe, Monroe County Library System also has several service contracts with the Woodlands Library Cooperative. State aid revenue was budgeted at 0.4346 cents per capita.
- The 2005 budget was built around campaign promises to county voters prior to the August 2004 election including increases in hours at all branches, more best sellers and high demand items in the collection, more programs for all ages, and more computers for public use. The budget also incorporated continuation of projects outlined in a Strategic Plan approved by the library board in 2003. Staff in the areas of technology, reference, circulation, and children's services provided these enhanced services. All staff members were granted a 3% salary increase in 2005. In addition to increasing the number of copies of best sellers, our collection development goals for 2005 included plans to purchase more recorded books on cassettes and compact disks, videos, DVDs, and reference materials in print and electronic formats. A portion of the materials budget was designated for one-time "grants" to fulfill collection goals outlined in the strategic plan. An outreach vehicle was purchased to provide circulation services to senior centers, and a six-station mobile training lab was purchased to provide technology training at all branch libraries.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Management's Discussion and Analysis (Unaudited)*  
*Year Ended December 31, 2005*

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Next Year's Funding (2006)

Based on the equalization report issued in June 2005, with a one mill levy, we expect our 2006 income from property taxes to be \$5,676,498. This accounts for approximately 80% of our operating income.

State aid for libraries remains an unstable funding source for libraries, based on the State of Michigan's current budget crisis. State aid for the State's 2005-2006 fiscal year was set at 0.359 cents per capita. This generates approximately 2% of the library system's budget.

Penal fine revenue is (and always will be) an unpredictable source of revenue and is budgeted conservatively due to the past patterns of wide fluctuations in this revenue source. Penal fines comprise about 13% of the 2006 budget.



**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Statement of Net Assets*  
*December 31, 2005*

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	Governmental Activities
<b>Assets</b>	
Cash	\$2,565,416
Certificates of deposit	900,000
Prepaid expenses	23,879
Receivables:	
Accounts	88,754
Contracts	145,847
Taxes	5,545,505
Capital assets, net of depreciation	8,649,879
	<hr/>
Total Assets	17,919,280
 <b>Liabilities</b>	
Accounts payable	60,095
Accrued liabilities	73,453
Deferred revenue	5,732,344
Long-term liability:	
Accumulated employee benefits	258,929
	<hr/>
Total Liabilities	6,124,821
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	8,649,879
Restricted	9,861
Unrestricted	3,134,719
	<hr/>
Total Net Assets	\$11,794,459

See accompanying notes to financial statements.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Statement of Activities*  
*Special Revenue Fund Types*  
*Year Ended December 31, 2005*

	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets- Governmental Activities
		Charges for Services	Operating Grants	
<b>Function/Program</b>				
Governmental activities:				
Library services/operations	<u>\$6,066,307</u>	<u>\$250,884</u>	<u>\$0</u>	(\$5,815,423)
General Revenues:				
Taxes				5,382,382
State grant				131,521
Fine and forfeits				1,014,938
Interest				128,384
Other revenue				<u>99,243</u>
Total General Revenues				6,756,468
Special Item				<u>2,636,955</u>
Total General Revenues and Special Item				<u>9,393,423</u>
<b>Change in Net Assets</b>				3,578,000
Net Assets - Beginning of Year				<u>8,216,459</u>
Net Assets - End of Year				<u>\$11,794,459</u>

See accompanying notes to financial statements.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Special Revenue Funds*  
*Combining Balance Sheet*  
*December 31, 2005*

	Operating	Reserved/ Designated	Totals
<b>Assets</b>			
Cash	\$988,955	\$1,576,461	\$2,565,416
Certificates of deposit	900,000	0	900,000
Prepaid expense	23,879	0	23,879
Receivables:			
Accounts	88,754		88,754
Contracts	145,847	0	145,847
Taxes	5,545,505	0	5,545,505
 Total Assets	 \$7,692,940	 \$1,576,461	 \$9,269,401
 <b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$60,095	\$0	\$60,095
Accrued liabilities	73,453	0	73,453
Deferred revenue	5,732,344	0	5,732,344
 Total Liabilities	 5,865,892	 0	 5,865,892
 <b>Fund Balances</b>			
Reserved:			
- Margolis ALA conference	0	2,755	2,755
- Maybee facility	0	7,106	7,106
Unreserved:			
Designated:			
- maintenance	0	104,528	104,528
- operations	1,827,048	0	1,827,048
- endowment	0	71,247	71,247
- equipment replacement	0	298,390	298,390
- automation	0	335,112	335,112
- capital	0	757,323	757,323
 Total Fund Balances	 1,827,048	 1,576,461	 3,403,509
 Total Liabilities and Fund Balances	 \$7,692,940	 \$1,576,461	 \$9,269,401

See accompanying notes to financial statements.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Special Revenue Funds*  
*Reconciliation of Fund Balance to Net Assets*  
*December 31, 2005*

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	<u>Operating</u>	<u>Reserved/ Designated</u>	<u>Totals</u>
<b>Total Fund Balances - Governmental Funds</b>	\$1,827,048	\$1,576,461	\$3,403,509
Amounts reported in the statement of net assets are different because:			
Capital assets are not financial resources, and are not reported in the funds	8,649,879	0	8,649,879
Compensated absences are included as a liability	<u>(258,929)</u>	<u>0</u>	<u>(258,929)</u>
<b>Total Net Assets - Governmental Activities</b>	<u>\$10,217,998</u>	<u>\$1,576,461</u>	<u>\$11,794,459</u>

See accompanying notes to financial statements.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Special Revenue Funds*  
*Combining Statement of Revenues, Expenditures, and Changes in Fund Balances*  
*Year Ended December 31, 2005*

	Operating	Reserved/ Designated	Totals
<b>Revenues</b>			
Taxes	\$5,382,382	\$0	\$5,382,382
State grants	131,521	0	131,521
Charges for services	250,884	0	250,884
Fines and forfeits	1,014,938	0	1,014,938
Interest	82,827	45,557	128,384
Other revenues	99,243	0	99,243
 Total Revenues	 6,961,795	 45,557	 7,007,352
 <b>Expenditures</b>			
Cultural:			
Personnel services	4,277,010	0	4,277,010
Supplies	153,114	0	153,114
Charges and services	620,255	0	620,255
Capital outlay	1,455,403	0	1,455,403
 Total Expenditures	 6,505,782	 0	 6,505,782
 Excess (Deficiency) of Revenues over Expenditures	 456,013	 45,557	 501,570
 <b>Other Financing Sources (Uses)</b>			
Operating transfers in	60,179	1,718	61,897
Operating transfers out	(1,718)	(60,179)	(61,897)
 Total Other Financing Sources (Uses)	 58,461	 (58,461)	 0
 <b>Net Change in Fund Balances</b>	 514,474	 (12,904)	 501,570
 Fund Balances - Beginning of Year	 1,312,574	 1,589,365	 2,901,939
Fund Balances - End of Year	\$1,827,048	\$1,576,461	\$3,403,509

See accompanying notes to financial statements.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances to the Statement of Activities  
Year Ended December 31, 2005*

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<b>Net Change in Fund Balances - Governmental Funds</b>	<b>\$501,570</b>
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Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Library books and materials - additions	682,727
Library books and materials - deletions	(230,976)
Capital outlay	174,756
Depreciation	(162,294)
Increase in the library collections per unit value for inventory	2,636,955
Increase in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	(24,738)
<b>Change in Net Assets of Governmental Activities</b>	<b>\$3,578,000</b>

See accompanying notes to financial statements.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Notes to Financial Statements*  
*Year Ended December 31, 2005*

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Note 1      Reporting Entity

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships.

The Monroe County Library System is a component unit of the County of Monroe, Michigan, the oversight unit. The Library is primarily funded through tax levy, fines and fees, and state aid. For financial reporting purposes, only the funds controlled by the Monroe County Library System are included in this report. By accounting principles generally accepted in the United States of America, these funds are required to be in the report of the oversight unit.

Note 2      Summary of Significant Accounting Policies

The accounting policies of the Monroe County Library System conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Library's activities
- A change in the fund financial statements to focus on the major funds

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

A. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements.

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the *economic resources measurement focus* and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of operations. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**MONROE COUNTY LIBRARY SYSTEM  
MONROE COUNTY, MICHIGAN**

*Notes to Financial Statements  
Year Ended December 31, 2005*

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Note 2      Summary of Significant Accounting Policies (Continued)

Government-wide Financial Statements (Concluded)

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to library patrons who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items are not included among program revenues but are properly reported as general revenues.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The accounts of the Monroe County Library System are organized on a basis of funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into one generic fund type and one broad fund category as follows:

**GOVERNMENTAL FUNDS**

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The Monroe County Library System operates as a special revenue fund of the County of Monroe. For purposes of this report, the general operating fund is reported separately from other restricted and designated funds. The County collects revenues for the Library and holds them until requested for Library expenditures. The Library's checking accounts are maintained on an imprest system with enough money transferred from the County to the Library to cover approved expenditures. Excess funds and investments are maintained by the County.

**B. Capital Assets**

Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical costs. The value of donated materials, except books, are recognized by the Monroe County Library System at their appraised value. Donated books are posted to a donor list but no appraised value is given. The appraised value of donated books, if calculated, would be immaterial to the financial statements.



**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Notes to Financial Statements*  
*Year Ended December 31, 2005*

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Note 2      Summary of Significant Accounting Policies (Continued)

B. Capital Assets (Concluded)

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Building improvements	10-39 years
Furniture and equipment	5-10 years
Vehicles	5 years

C. Long-Term Liabilities

Long-term liabilities expected to be financed from the governmental funds are accounted for in the Statement of Net Assets, not in the governmental fund.

- D. The Library reports deferred revenue on its balance sheet and statement of net assets. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Library before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the Library has legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

E. Budget

A budget is adopted by the Library Board of Trustees. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect the actual revenues and expenditures for this fund. The budget is adopted at the activity level. The Board of Trustees is authorized to transfer budget amounts within an activity and to make authorized amendments to the original approved budget. Unexpended appropriations lapse at year end.

F. Deposits

The library has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Deposits are carried at cost.

G. Receivables

All trade and property taxes receivable are shown net of an allowance for uncollectible amounts. Property taxes are levied on December 1<sup>st</sup> based on the taxable valuation of the property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on February 15<sup>th</sup> of the following year, at which time penalties and interest are assessed.

H. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Notes to Financial Statements*  
*Year Ended December 31, 2005*

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Note 3      Special Item

The Library reviewed the library collections which consists of books, video materials, and recordings. The collections are recorded based on a year-end inventory. The value of the inventory is recorded using an average cost per unit value. The Library determined that the per unit value should be increased from ten dollars per unit to fifteen dollars per unit.

Note 4      Deposits and Investments

Statutes authorize the Library to invest in obligations of the U.S. Treasury, agencies, and instrumentalities; commercial paper within the three highest rate classifications by at least two rating services; bankers' acceptances of U.S. banks, U.S. or agency repurchase agreements; savings accounts and certificates of deposit with banks and savings and loan associations, or credit unions which are insured with the applicable federal agency. Public funds of the Library may not be deposited in financial institutions located in states other than Michigan.

Public Act 367 of 1982 (known as the Surplus Funds Investment Pool Act) enables municipalities to invest surplus operating funds in investment pools managed by qualified financial institutions. At December 31, 2005, Monroe County Library System had invested in such a fund with a local bank. The Library is able to retrieve these funds without restriction and, accordingly, this amount is considered to be available cash. The local bank invests these funds in a variety of instruments including bonds and direct obligations of the United States, certificates of deposit, commercial paper rated within the three highest classifications by not less than two standard rating services, United States government or federal agency obligation repurchase agreements and bankers acceptances of the United States banks.

The Library believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, and since State of Michigan legislation does not require that all deposits be collateralized, it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution with which it deposits Library funds and assesses the level of risk at each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The Board has adopted an investment policy authorizing certain types of investments and authorized five depositories: Monroe Bank & Trust, Fifth Third Bank, National City Bank, Bank One, and LaSalle Bank.

*Interest rate risk.* The Library's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* The Library will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities listed in the Library's investment policy.

*Concentration of credit risk.* The Library does not place any limits on the amount the Library may deposit or invest in any one issuer.

*Custodial credit risk.* Custodial credit risk for deposits is the risk that in the event of a bank failure, the Library's deposits may not be returned or the Library will not be able to recover the collateral securities in the possession of an outside party. The Library has \$3,465,416 invested in certificates of deposit, checking accounts, and money markets. The Library's deposits are insured by the FDIC in the amount of \$407,126, with uninsured deposits of \$2,696,344. The Library's deposits are at institutions with an established record of fiscal health and service.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Notes to Financial Statements*  
*Year Ended December 31, 2005*

Note 4      Deposits and Investments (Concluded)  
*Custodial credit risk (concluded).* The Library Board approves and designates a list of authorized depository institutions. The Library's investment policy does not address deposit risk.

*Foreign currency risk.* The Library is not authorized to invest in investments which have this type of risk.

Note 5      Related Party Transactions  
The Library leases approximately 5.5 acres of land from Monroe County on which the Ellis Information Center is constructed. The Library provides no consideration to Monroe County under terms of this lease which expires in the year 2056. The financial statements do not include any valuation for contributed services by Monroe County or other library patrons.

Note 6      Contracts Receivable  
The Monroe County Library System is fiscal agent for the Woodlands Library Cooperative, a regional resource information service. The Library has entered into several contracts with Woodlands which ran through September 30, 2006. The contracts have various payment dates. The Library has also entered into a contract with the City of Monroe for the provisions of maintenance, grounds keeping, utilities, janitorial services, and related costs for the City Library branches. Contracts receivable and \$145,847 of the deferred revenue represents the status of the contracts at December 31, 2005.

	<u>Face Amount of Contract</u>
Woodlands Library Cooperative	
Interlibrary Loan Service	\$ 42,788
Cooperative Periodical Purchasing	2,250
Delivery	15,084
Fiscal Services	2,400
Automation Services	<u>52,725</u>
	115,247
City of Monroe	<u>30,600</u>
	<u>\$145,847</u>

Note 7      Capital Assets  
A summary of changes in capital assets follows:

	<u>Balance at</u> <u>January 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>December 31, 2005</u>
Building Improvements	\$ 329,478	\$ 3,316	\$ -	\$ 332,794
Equipment and Fixtures	763,294	143,690	-	906,984
Vehicles	91,137	27,750	-	118,887
Library Collections	<u>4,822,160</u>	<u>3,319,682</u>	<u>230,976</u>	<u>7,910,866</u>
Total	6,006,069	3,494,438	230,976	9,269,531
Less: Accumulated Depreciation	<u>(457,358)</u>	<u>(162,294)</u>	<u>-</u>	<u>(619,652)</u>
Net Capital Assets	<u>\$5,548,711</u>	<u>\$3,332,144</u>	<u>\$230,976</u>	<u>\$8,649,879</u>

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Notes to Financial Statements*  
*Year Ended December 31, 2005*

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Note 7      Capital Assets (Concluded)

Depreciation is recorded using the straight-line method over ten to thirty-nine years for building improvements, five to ten years for equipment and fixtures, and five years for vehicles.

Library collections consist of books, video materials, and recordings. The collections are recorded based on a year-end inventory. The value of the inventory is recorded using an average cost of fifteen dollars per unit.

The Library has a collection of artwork presented for public exhibition and education. The items in the collection are pieces of artwork that have won art shows or have won the library award. These pieces of artwork are available for loan to the public. The collection is not capitalized or depreciated as part of fixed assets.

Note 8      Property Taxes

The Library was authorized by a special election to levy 1.0 mills. The Library's 2005 property taxes were levied on December 1, 2004 on assessed valuations as of December 31, 2003. The taxable value for real and personal property for the year amounted to \$5,286,283,830 based on a percentage of the property's fair market value. Taxes levied December 1, 2005, totaling \$5,586,497 were recorded as taxes receivable and deferred revenue. At December 31, 2005, taxes receivable were \$5,545,505.

Note 9      Long-Term Liability for Compensated Absences

The personnel policy of the Library provides its full time employees the right to payment for unused vacation and sick time hours. Accumulation of unused sick time hours provides for conversion to vacation hours. The Library has estimated its long-term liability for these accumulated hours as of December 31, 2005 and such amounts are recorded in the statement of net assets.

The following is a summary of changes in long-term debt:

	<u>Balance</u> <u>December 31, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>December 31, 2006</u>
Compensated Absences	\$234,191	\$24,738	\$ -	\$258,929

Note 10      Lease Commitments

The renovation of the Monroe County Library System's Ellis Information and Reference Center began during 1998. The renovation was financed with 1998 Building Authority Limited Tax General Obligation Bonds. The County of Monroe and the Monroe County Municipal Building Authority entered into a Full Faith and Credit General Obligation Contract of Lease agreement to issue the \$1,800,000 bonds. The Monroe County Library System entered into a sub-contract to lease the Ellis Information and Reference Center from the County of Monroe with lease payments equivalent to the annual debt service on the bonds. The building lease expense was \$431,375 for 2005. Following are the annual lease payment obligations:

<u>Year</u>	<u>Amount</u>
2006	\$217,775
2007	257,813
2008	<u>51,125</u>
	<u>\$526,713</u>

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Notes to Financial Statements*  
*Year Ended December 31, 2005*

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**Note 11**      **Pension and Post Retirement Commitment**

**Plan Description**

Full-time employees of Monroe County Library System are participants in the Monroe County Employees Retirement System. The County has a defined benefit pension plan covering substantially all its employees. The plan is operated by the County of Monroe. Additional significant information regarding the Monroe County Employees Retirement System pension plan and pension trust fund investments are included in the report of examination for the County of Monroe for the year ended December 31, 2005.

**Funding Policy**

Employees of the Library are not required to contribute to the plan. The Library is required to make annual contributions based on an actuarially computed percentage of covered wages in amounts sufficient to cover normal cost of benefits and amortize the prior service liabilities over a period of future years.

**Annual Pension Cost**

For the year ended December 31, 2005, the Library's annual pension cost for the plan was zero. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include (a) a 7.0 investment rate of return, (b) projected salary increases of 5.0 percent to 12.0 percent per year, and c) no cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. Liabilities created by plan changes, assumption changes, or method changes are amortized as a level percentage of payroll over a twelve year closed period. Liabilities created by plan experience and all other liabilities or overfunding are amortized as a level percentage of payroll over a nine year open period.

**Three-Year Trend Information**

	<u>Valuation Ended December 31,</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Annual pension cost (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	100.00%	100.00%	100.00%
Net pension obligation	-	-	-
Actuarial value of assets	10,884,841	11,938,919	11,982,564
Actuarial accrued liability			
(entry age) (AAL)	8,049,777	8,863,889	9,721,348
Unfunded AAL (UAAL)	(2,835,064)	(3,075,030)	(2,261,216)
Funded ratio	135.20%	134.70%	123.30%
Covered payroll	1,808,581	1,973,464	2,135,126
UAAL as a percentage of covered payroll	(156.76)%	(155.82)%	(105.91)%

The Library system also provides health benefits to the retirees. The Library was returned \$254,545 to pay the 2005 current year costs of the retiree health benefits. As of December 31, 2005, all the funds in the Monroe County Retirement System have been depleted.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Notes to Financial Statements*  
*Year Ended December 31, 2005*

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Note 11      Pension and Post Retirement Commitment (Concluded)  
Three-Year Trend Information (Concluded)

Meanwhile, the Monroe County Library System will contribute to the Retiree Health Care Benefits Plan and Trust which was adopted on December 17, 2001. The Monroe County Library Retiree Health Care Benefits Plan and Trust (Plan and Trust) was established under the authority of the Public Employee Health Care Fund Investment Act, Public Act 149 of 1999, and shall constitute a “voluntary employees beneficiary association” (“VEBA”) under Section 501(c)(9) of the Internal Revenue Code, as amended. The assets of the Plan and Trust shall be held in trust for the exclusive purpose of providing health care and life insurance benefits to eligible retirees and their beneficiaries who are receiving retirement benefits from the Monroe County Employees Retirement System. The Library System is permitted to invest assets of the plan and trust in investments, subject to the limitations governing the investment of assets of public employee retirement systems under the Public Employee Retirement System Investment Act, PA 314 of 1965, as amended. The assets of the Fund shall be invested in accordance with the Investment Policy as established by the Board of Trustees and the Public Employee Retirement System Investment Act. The Library’s contribution to the Plan and Trust for 2005 was \$472,524 to fund retiree health benefits as a result of an actuarial valuation as of December 31, 2003. The following is the actuarial liability.

	<u>Valuation Ended December 31,</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Actuarial value of assets	\$ 858,826	\$1,128,169	\$1,127,115
Actuarial accrued liability (AAL)	5,624,280	7,220,874	6,991,115
Unfunded AAL	4,765,454	6,092,705	5,864,000
Funded ratio	15.3%	15.6%	16.1%

Note 12      Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors, omissions and employee injuries (workman’s compensation). The Library has purchased commercial insurance for property loss, torts, errors, omissions, and employee injuries.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Operating Fund*  
*Required Supplementary Information*  
*Budgetary Comparison Schedule*  
*Year Ended December 31, 2005*

	Originally Adopted Budget	Final Amended Budget	Actual Balances	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Taxes:				
Current levy	\$5,341,377	\$5,341,377	\$5,266,234	(\$75,143)
Industrial facilities	65,000	65,000	99,795	34,795
Other	5,000	5,000	16,353	11,353
	<u>5,411,377</u>	<u>5,411,377</u>	<u>5,382,382</u>	<u>(28,995)</u>
State grants:				
State aid	125,772	125,772	125,433	(339)
State grants	0	0	6,088	6,088
Inventory tax	19,000	19,000	0	(19,000)
	<u>144,772</u>	<u>144,772</u>	<u>131,521</u>	<u>(13,251)</u>
Charges for services:				
Contractual services	225,345	225,345	223,887	(1,458)
Copy machine charges	9,000	9,000	17,629	8,629
Sale of publications	0	0	82	82
Sale of books and supplies	1,500	1,500	9,286	7,786
	<u>235,845</u>	<u>235,845</u>	<u>250,884</u>	<u>15,039</u>
Fines and forfeits:				
Penal fines	900,000	900,000	953,477	53,477
Overdue charges	60,000	60,000	61,461	1,461
	<u>960,000</u>	<u>960,000</u>	<u>1,014,938</u>	<u>54,938</u>
Interest	55,980	55,980	82,827	26,847
Other revenues:				
Special events and programs	0	0	15,900	15,900
Summer reading	0	0	4,000	4,000
Writers on the river	0	0	6,005	6,005
Gifts and bequests	0	0	2,438	2,438
Miscellaneous revenue	0	0	70,900	70,900
	<u>0</u>	<u>0</u>	<u>99,243</u>	<u>99,243</u>
Total Revenues	6,807,974	6,807,974	6,961,795	153,821
<b>Expenditures</b>				
Cultural:				
Personnel services:				
Salaries and wages	3,328,641	3,226,941	3,155,589	71,352
Payroll taxes	254,273	254,523	241,061	13,462
Fringe benefits	921,025	930,225	880,360	49,865
	<u>4,503,939</u>	<u>4,411,689</u>	<u>4,277,010</u>	<u>134,679</u>

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Operating Fund*  
*Required Supplementary Information*  
*Budgetary Comparison Schedule*  
*Year Ended December 31, 2005*

	Originally Adopted Budget	Final Amended Budget	Actual Balances	Variance Favorable (Unfavorable)
<b>Expenditures (Concluded)</b>				
Supplies:				
Postage	\$24,000	\$24,000	\$23,838	\$162
Office supplies	85,000	108,000	96,903	11,097
Other	9,500	10,500	8,646	1,854
Automation	60,000	60,000	23,727	36,273
	178,500	202,500	153,114	49,386
Charges and services:				
Professional services	62,000	62,500	49,510	12,990
Cooperative services	63,000	63,000	62,599	401
Telephone and dial-in access	180,500	205,300	157,749	47,551
Mileage and travel	28,000	38,000	33,213	4,787
Printing and binding	40,000	40,000	32,191	7,809
General insurance	45,000	45,000	39,938	5,062
Utilities	76,300	77,300	66,138	11,162
Repair and maintenance	152,500	166,500	98,502	67,998
Rentals	1,000	1,000	978	22
Other	14,500	34,500	26,042	8,458
Janitorial services	54,200	54,200	53,395	805
	717,000	787,300	620,255	167,045
Capital outlay:				
Equipment and building improvements	304,000	271,000	225,065	45,935
Books	550,000	550,000	468,134	81,866
Video materials	106,000	106,000	105,397	603
Periodicals and microfilm	57,000	59,000	57,739	1,261
Recordings	100,000	108,000	109,195	(1,195)
Software and electronic media	57,000	80,000	58,498	21,502
Building lease	435,875	435,875	431,375	4,500
	1,609,875	1,609,875	1,455,403	154,472
Total Expenditures	7,009,314	7,011,364	6,505,782	505,582
Excess (Deficiency) of Revenues over Expenditures	(201,340)	(203,390)	456,013	659,403
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	566	60,744	60,179	(565)
Operating transfer out	0	(1,718)	(1,718)	0
Total Other Financing Sources (Uses)	566	59,026	58,461	(565)
<b>Net Changes in Fund Balances</b>	(200,774)	(144,364)	514,474	658,838
Fund Balances - Beginning of Year	1,200,785	1,200,785	1,312,574	111,789
Fund Balances - End of Year	\$1,000,011	\$1,056,421	\$1,827,048	\$770,627



**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Reserved/Designated Fund*  
*Required Supplementary Information*  
*Budgetary Comparison Schedule*  
*Year Ended December 31, 2005*

	Originally Adopted Budget	Final Amended Budget	Actual Balances	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Interest	\$15,841	\$15,841	\$45,557	\$29,716
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	0	1,718	1,718	0
Operating transfers out	(566)	(60,744)	(60,179)	565
Total Other Financing Sources (Uses)	(566)	(59,026)	(58,461)	565
<b>Net Changes in Fund Balances</b>	15,275	(43,185)	(12,904)	30,281
Fund Balances - Beginning of Year	1,584,217	1,584,217	1,589,365	5,148
Fund Balances - End of Year	<u>\$1,599,492</u>	<u>\$1,541,032</u>	<u>\$1,576,461</u>	<u>\$35,429</u>



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Board of Directors  
Monroe County Library System  
Monroe County, Michigan 48161

Report of Comments and Recommendations

Our audit of the financial statements of the Monroe County Library System for the year ended December 31, 2005, was conducted in accordance with auditing standards generally accepted in the United States of America. These standards require, in addition to obtaining competent evidential matter through inspection, observation, inquiry, and confirmation, that we determine that existing internal control, accounting procedures, and accounting records are adequate to allow us to express an opinion on the financial statements of the Monroe County Library System.

As a result of our audit, we do not have any comments or recommendations that should be brought to the attention of the Board.

We wish to express our appreciation for the continuing cooperation and courtesy extended to us by all employees of the Monroe County Library System.

Very truly yours,

January 25, 2006